



Homeland
Security

December 21, 2004

MEMORANDUM FOR: Karen E. Armes
Acting Regional Director
FEMA, Region IX

Robert J. Lastrico

FROM: Robert J. Lastrico
Field Office Director

SUBJECT: *Audit of the County of Ventura
Ventura, California
Public Assistance Identification Number 111-00000
FEMA Disaster Number 1203-DR-CA
Audit Report Number DS-06-05*

The Office of Inspector General (OIG) audited public assistance grant funds awarded to the County of Ventura, Ventura, California (County). The objective of the audit was to determine whether the County expended and accounted for Federal Emergency Management Agency (FEMA) funds according to federal regulations and FEMA guidelines.

The County received a public assistance grant award of \$6.0 million from the California Office of Emergency Services (OES), a FEMA grantee, for flood damage that occurred from February 2, 1998, through April 30, 1998. The award provided 75 percent federal funding for 28 large projects and 42 small projects.¹ The audit covered the period February 2, 1998, to December 9, 2004, and included a review of 10 large projects with a total award of \$3.7 million (see Exhibit).

The OIG performed the audit under the authority of the Inspector General Act of 1978, as amended, and according to *Government Auditing Standards* issued by the Comptroller General of the United States. The audit included a review of FEMA, OES, and County records, a judgmental sample of project expenditures, and other auditing procedures considered necessary under the circumstances.

¹ Federal regulations in effect at the time of the disaster set the large project threshold at \$47,100.

RESULTS OF AUDIT

The County expended and accounted for public assistance funds according to federal regulations and FEMA guidelines for 7 of 10 large projects reviewed. However, for three projects, the OIG questioned \$119,158 in costs claimed by the County. (FEMA's share of the claimed costs questioned by the OIG is \$89,369.) These costs included \$95,198 in excessive project management and engineering costs, \$14,410 in excessive force account labor costs, and \$9,550 in accounting errors.

Finding A - Excessive Project Management and Engineering Costs

The County's claim for project 02717 included \$95,198 in excessive project management and engineering (PM&E) costs. The project scope consisted of roadway repairs and associated PM&E at 16 locations. The project scope also included hazard mitigation measures that FEMA did not fund because the completed work was not in compliance with federal requirements.

Project records showed that upon completion of the work, the County adjusted and claimed roadway repair costs equal to the amount determined by FEMA to be eligible (\$369,727 of the \$576,490 in total project costs). However, the County did not adjust \$148,446 in related PM&E costs incurred for both eligible and ineligible work but rather claimed the whole amount.² Since County records did not detail how PM&E costs were incurred, the OIG prorated these costs to eligible and ineligible work based on the ratio of total project costs to FEMA-eligible costs (64.13%).³ Using this approach, we calculated that \$95,198 of the \$148,446 claimed for PM&E costs was ineligible for FEMA reimbursement (\$148,446 times 64.13%). County officials agreed that the PM&E costs were not adjusted to eligible amounts and believed that the OIG's methodology appeared reasonable.

According to 44 CFR 13.20(b)(5), subgrantees are required to follow Office of Management and Budget (OMB) cost principles, agency program regulations, and the terms of grant and subgrant agreements in determining reasonable costs. OMB Circular A-87, Attachment A, Section C.2 provides that a cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person. Since claiming PM & E costs for both eligible and ineligible work was not reasonable, the OIG questioned that percentage associated with the ineligible work (\$95,198).

Finding B – Excessive Force Account Labor Costs

The County claimed \$14,410 in excessive force account labor costs for projects 02725 and 76684 as follows.

- The County claimed overtime fringe benefits costs of \$3,893 for project 02725 and \$3,373 for project 76684 in excess of actual costs incurred. This occurred because the County used a 15.56 percent fringe benefits rate for FICA and workers' compensation insurance instead of the actual fringe benefits rate of 11.42 percent. In total, the County's application of the higher fringe benefits rate resulted in excess force account labor costs of \$7,266.

² \$99,980 in contracted project management cost and \$48,466 in force account engineering cost.

³ \$369,727/\$576,490 = 64.13%

- The County claimed overtime force account labor costs of \$3,827 for project 02725 and \$3,317 for project 76684 that were not in compliance with the County's Union Agreement. The Agreement required that all regular and overtime work performed by Public Work Chiefs be paid at the straight time rate. However, the County claimed payments to Public Work Chiefs at a rate of one and one half times the straight time rate. This resulted in total excess force account labor costs of \$7,144.

OMB Circular A-87, Attachment A, subsection C.1.e requires that costs allowable under federal awards be consistent with policies, regulations, and procedures that apply uniformly to both federally-assisted and other activities of the unit of government of which the grantee is a part. Since the County's claim for force account labor costs was excessive and not consistent with local practices for recording labor costs, the OIG questioned \$14,410.

Finding C – Accounting errors

The County's claim for project 02725 included \$9,550 in accounting errors. Details follow.

- The County claimed \$4,934 twice. Various invoices totaling this amount supported postings to job numbers 66041 (\$3,787) and 66042 (\$1,148). However, the total amount was again posted to job number 66041.
- The County also claimed \$4,616 twice. Various invoices totaling this amount supported a posting to job number 66041. However, the charge was again posted as two separate entries to job number 66042 (\$995 and \$3,621).

According to 44 CFR 13.20(b)(1), the County is required to accurately report the results of financially assisted activities. Since the County claimed \$9,550 twice, it did not accurately report its financially assisted activities. Therefore, the OIG questioned this amount.

RECOMMENDATION

The OIG recommends that the Acting Regional Director, FEMA Region IX, in coordination with OES, disallow \$119,158 in costs claimed by the County.

DISCUSSION WITH MANAGEMENT AND AUDIT FOLLOW UP

The OIG discussed the results of this audit with County officials on December 9, 2004. County officials agreed with the findings. The OIG also notified FEMA and OES officials of the audit results on December 13, 2004.

Please advise this office by February 21, 2005, of actions taken to implement our recommendation. Should you have any questions concerning this report, please contact me at (510) 627-7011. Key

contributors to this assignment were Humberto Melara, Ravi Anand, Montul Long and Willard Stark.

Schedule of Projects Audited
 Ventura County, California
 Public Assistance Identification Number 111-00000
 FEMA Disaster Number 1203-DR-CA

<u>Project Number</u>	<u>Amount Awarded</u>	<u>Questioned Costs</u>	<u>Finding Reference</u>
02717	\$ 355,209	\$ 95,198	A
02725	1,207,489	17,270	B & C
21011	201,796	0	
21012	99,379	0	
52056	299,464	0	
58377	232,976	0	
76395	335,921	0	
76684	258,097	6,690	B
94457	231,349	0	
94463	<u>446,355</u>	<u>0</u>	
Totals	<u>\$3,668,035</u>	<u>\$119,158</u>	

Finding Reference Legend:

A – Excessive Project Management and Engineering Costs

B – Excessive Force Account Labor Costs

C – Accounting Errors